

COPY

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

JAN 06 2009

INDIANA UTILITY
REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE
COMPANY ("NIPSCO") FOR (1) AUTHORITY TO MODIFY
ITS RATES AND CHARGES FOR ELECTRIC UTILITY
SERVICE; (2) APPROVAL OF NEW SCHEDULES OF RATES
AND CHARGES APPLICABLE THERETO; (3) APPROVAL
OF REVISED DEPRECIATION ACCRUAL RATES; (4)
INCLUSION IN ITS BASIC RATES AND CHARGES OF THE
COSTS ASSOCIATED WITH CERTAIN PREVIOUSLY
APPROVED QUALIFIED POLLUTION CONTROL
PROPERTY PROJECTS; (5) AUTHORITY TO IMPLEMENT
A RATE ADJUSTMENT MECHANISM PURSUANT TO IND.
CODE § 8-1-2-42(a) TO (A) TIMELY RECOVER CHARGES
AND CREDITS FROM REGIONAL TRANSMISSION
ORGANIZATIONS AND NIPSCO'S TRANSMISSION
REVENUE REQUIREMENTS; (B) TIMELY RECOVER
NIPSCO'S PURCHASED POWER COSTS; AND (C)
ALLOCATE NIPSCO'S OFF SYSTEM SALES REVENUES; (6)
APPROVAL OF VARIOUS CHANGES TO NIPSCO'S
ELECTRIC SERVICE TARIFF INCLUDING WITH RESPECT
TO THE GENERAL RULES AND REGULATIONS, THE
ENVIRONMENTAL COST RECOVERY MECHANISM AND
THE ENVIRONMENTAL EXPENSE MECHANISM; (7)
APPROVAL OF THE CLASSIFICATION OF NIPSCO'S
FACILITIES AS TRANSMISSION OR DISTRIBUTION IN
ACCORDANCE WITH THE FEDERAL ENERGY
REGULATORY COMMISSION'S SEVEN-FACTOR TEST;
AND (8) APPROVAL OF AN ALTERNATIVE REGULATORY
PLAN PURSUANT TO IND. CODE § 8-1-2.5-1 *ET SEQ.* TO
THE EXTENT SUCH RELIEF IS NECESSARY TO EFFECT
THE RATEMAKING MECHANISMS PROPOSED BY
NIPSCO.

CAUSE NO. 43526

**NORTHERN INDIANA PUBLIC SERVICE COMPANY'S
THIRD SET OF CORRECTIONS AND/OR REVISIONS
TO CASE-IN-CHIEF**

Pursuant to Paragraph 15 of the Prehearing Conference Order in this Cause, Petitioner Northern Indiana Public Service Company ("NIPSCO") submits the following corrections and/or revisions to the prepared direct testimony and exhibits of Witnesses Linda E. Miller and Paul R. Moul of its case-in-chief filed with the Commission on August 29, 2008 and in Witness Miller's

case as revised in Petitioner's Submission of Revised and Supplemental Testimony filed with the Commission on December 19, 2008:

1. Linda E. Miller Testimony (Volume 1). Petitioner's Exhibit LEM-3 (Revised),
Adjustment PF-1 – Changed “8.34%” to “8.37%”.
2. Linda E. Miller Testimony (Volume 1). Petitioner's Exhibit LEM-5 (Revised),
Page 20 of 2 – Changed “Page 20 of 2” to “Page 1 of 3”.
3. Linda E. Miller Testimony (Volume 1). Petitioner's Exhibit LEM-5 (Revised),
Page 2 of 2 – Changed to “Page 2 of 2” to “Page 2 of 3”.

Item 1 corrects a typographical error. Items 2 and 3 correct a mistake in the labeling of the first two pages of Petitioner's Exhibit LEM-5 (Revised). NIPSCO did not intend to eliminate page 3 of this exhibit which was not affected by the December 19th revisions. For the convenience of the Commission and the parties, a clean copy of Witness Miller's entire set of exhibits (Petitioner's Exhibits LEM-2 through LEM-5 and Petitioner's Exhibit LEM-10), as corrected and revised to date, is attached hereto. The attached exhibits are in the form that Petitioner intends to offer in evidence at the hearing in this proceeding.

4. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 43, line 7
– Changed “49.76%” to “49.94%”.
5. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 43, line 8
– Changed “50.23%” to “50.05%”.
6. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 43, line
10 – Changed “49.76%” to “49.94%”.

7. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 43, line 20 – after the words “To this amount, I added” - added the words “\$322,446,402 for Sugar Creek and”.
8. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 44, line 1 – Changed “\$152,587,331” to “\$154,082,622”.
9. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 44, line 2 – Changed “\$6,482,337,974” to “\$6,806,279,666”.
10. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 44, line 4 – Changed “\$2,341,480,136” to “\$2,665,421,829”.
11. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 44, line 8 – Changed “\$4,401,736,848” to “\$4,733,099,690”.
12. Paul R. Moul Testimony (Volume 5). Petitioner's Exhibit PRM-1, Page 44, line 9 (entire table) – Changed to the following:

Valuation Method	Amount	Weight	Weighted Amount
Replacement Cost	\$ 6,806,279,666	49.94%	\$ 3,399,056,065
Original Cost	\$ 2,665,421,829	50.05%	\$ 1,334,043,625
Fair Value		99.99%	\$ 4,733,099,690

13. Paul R. Moul (Volume 5). Page 3 of 29 of Petitioner's Exhibit PRM-2 has been revised to reflect changes in the capitalization ratios; cost rates and interest coverage ratios.

Items 4 through 13 reflect changes required due to the December 19th revisions to Witness Miller's exhibits. A clean copy of the pages reflecting the revisions noted in Items 4

through 13 above is attached hereto. The attached revised pages will be included in Witness Moul's testimony and exhibits that Petitioner will offer in evidence at the hearing in this proceeding.

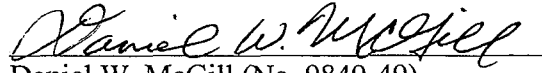
14. Vincent V. Rea Testimony (Volume 5). Petitioner's Exhibit VVR-1, Page 8, Line 14 – Changed to "Page 1 of 2" to "Page 1 of 1".
15. Vincent V. Rea Testimony (Volume 5). Petitioner's Exhibit VVR-1, Page 11, Line 11 through Page 12, Line 5 – Deleted Question/Answer 25 in its entirety and Question/Answer 26 was renumbered.
16. Vincent V. Rea Testimony (Volume 5). Petitioner's Exhibit VVR-2, Page 2 of 2 – Deleted in its entirety.

Items 14 through 16 reflect changes required due to the December 19 revisions to Witness Miller's exhibits. A clean copy of the pages reflecting the revisions noted in Items 14 through 16 above is attached hereto. The attached pages will be included in Witness Rea's testimony and exhibits that Petitioner will offer in evidence at the hearing in this proceeding.

17. Timothy A. Dehring (Volume 2). Petitioner's Exhibit TAD-1, Page 18, Line 7 – Changed "\$1.9" to "\$1.4".

Item 17 corrects a typographical error. A clean copy of the page reflecting the revision noted in Item 17 above is attached hereto. The attached page will be included in Witness Dehring's testimony and exhibits that Petitioner will offer in evidence at the hearing in this proceeding.

Respectfully submitted,



Daniel W. McGill (No. 9849-49)
Nicholas K. Kile (No. 15203-53)
P. Jason Stephenson (No. 21839-49)
Claudia J. Earls (No. 8468-49)
BARNES & THORNBURG LLP
11 S. Meridian Street
Indianapolis, IN 46204
Phone: 317.236.1313
Fax: 317.231.7433
Email: dan.mcgill@btlaw.com
nicholas.kile@btlaw.com
jason.stephenson@btlaw.com
claudia.earls@btlaw.com

Christopher C. Earle (No. 10809-49)
NORTHERN INDIANA PUBLIC SERVICE COMPANY
101 W. Ohio Street, Suite 1707
Indianapolis, IN 46204
Phone: 317.684.4901
Fax: 317.684.4918
Email: cearle@nisource.com

Attorneys for Petitioner NORTHERN INDIANA PUBLIC
SERVICE COMPANY

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of Northern Indiana Public Service Company's Third Set of Corrections has been served upon the following by hand delivery and/or email transmission addressed to:

Randall Helmen
Indiana Office of Utility Consumer Counselor
National City Center
115 West Washington St., Ste. 1500-S
Indianapolis, IN 46204
rhelmen@oucc.in.gov

Robert W. Wright
Dean-Webster & Wright, LLP
50 South Meridian Street, Ste. 500
Indianapolis, IN 46204
rwright@dwwlegal.com

John F. Wickes, Jr.
Bette J. Dodd
Lewis & Kappes, P.C.
One American Square, Ste. 2500
Indianapolis, IN 46282-0003
bdodd@lewis-kappes.com
jwickes@lewis-kappes.com

Shaw R. Friedman
Friedman & Associates, P.C.
705 Lincolnway
LaPorte, IN 46350
sfriedman.associates@verizon.net

Anne E. Becker
Stewart & Irwin PC
251 East Ohio Street, Suite 1100
Indianapolis, Indiana 46204-2147
abecker@silegal.com

Jerry Polk, Esq.
101 West Ohio Street, Ste 2000
Indianapolis, IN 46204
ipolk@polk-law.com

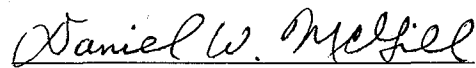
David H. Nicholls, Esq.
117 1/2 West Joliet Street
Crown Point, IN 46307
dhnicholls@ameritech.net

Donald P. Levinson
Shana D. Levinson
122 West 79th Avenue
Merrillville, IN 46410
donlevinson@airbaud.net
shanalevinson@airbaud.net

Richard Aikman
Stewart & Irwin PC
251 East Ohio Street, Suite 1100
Indianapolis, Indiana 46204-2147
raikman@silegal.com

James W. Brew
Brickfield Burchette Ritts & Stone, PC
1025 Thomas Jefferson Street, NW
Eighth Floor, West Tower
Washington, D.C. 20007-5201
jbrew@bbrslaw.com

this 6th day of January, 2009.


Daniel W. McGill

Northern Indiana Public Service Company
Statement of Operating Income
Actual, Pro Forma and Proposed
For the Twelve Month Period Ending December 31, 2007

Line No.	Description	Actual	Pro Forma Adjustments Increases (Decreases)	Ref.	Pro Forma Results Based on Current Rates	Pro Forma Adjustments Increases (Decreases)	Ref.	Pro Forma Results Based on Proposed Rates
	A	B	C	D	E	F	G	H
1	Operating Revenue							
2	Revenue	\$ 1,359,522,750			\$ 1,400,964,753	85,744,828	PF-1	\$ 1,486,708,581
3	Abnormal Weather		(14,604,146)	REV - 1				
4	EDR Revenue Imputation		1,432,424	REV - 2				
5	Special Contract Revenue Imputation		80,082,674	REV - 3				
6	FAC 71 Settlement		33,500,000	REV - 4				
7	Non-recurring Revenue Financial transactions		(2,203,737)	REV - 5				
8	Major Industrial Contract Changes (Metal Melters)		(804,138)	REV - 6				
9	Unbilled		10,955,615	REV - 7				
10	Off-System Sales		(50,400,058)	REV - 8				
11	2007 Emission Allowance Revenue		(11,790,599)	REV - 9				
12	2007 Transmission Revenue		(4,726,034)	REV - 10				
13	Add							
14	Utility Receipts Tax (related to fuel and purchased power)					7,177,052	OTX-6A	7,177,052
15	Total Operating Revenue	\$ 1,359,522,750	\$ 41,442,003		\$ 1,400,964,753	\$ 92,021,880		\$ 1,493,886,633
16	Fuel and Purchased Power	\$ 548,972,918			\$ 524,316,389			\$ 524,316,389
17	Fuel Related to Operating Revenue Adjustments		(3,683,450)	FP - 1				
18	Fuel Related to Operating Revenue (Metal Melters)		(628,613)	FP - 2				
19	Mobile Fuel Handling Expense		100,691	FP - 3				
20	Gas and Diesel		840,335	FP - 4				
21	Off-System Sales		(21,285,492)	FP - 5				
22	Add							
23	Utility Receipts Tax (related to fuel and purchased power)					7,177,052	OTX-6A	7,177,052
24	Total Fuel and Purchased Power	\$ 548,972,918	\$ (24,856,520)		\$ 524,316,389	\$ 7,177,052		\$ 531,493,441
25	Gross Margin	\$ 810,549,832	\$ 66,098,532		\$ 876,648,364	\$ 85,744,828		\$ 962,393,192
26	Operations and Maintenance Expenses	\$ 289,413,573			\$ 341,707,536			\$ 341,707,536
27	Production Expenses (Contractors)		1,006,864	OM - 1				
28	Variable Production Expenses		4,001,238	OM - 2				
29	Pension		5,762,558	OM - 3				
30	FAS No. 106 Other Post Retirement Benefits		5,762,480	OM - 4				
31	Wage Increases		5,083,259	OM - 5				
32	Incentive Compensation		(918,264)	OM - 6				
33	Workforce Aging		3,925,207	OM - 7				
34	Staffing Vacancies		5,016,101	OM - 8				
35	Staffing Additions		6,413,798	OM - 9				
36	Safety Program		448,569	OM - 10				
37	EEL Lobbying Expenses		(55,425)	OM - 11				
38	Goodwill Advertising		(60,063)	OM - 12				
39	Uncollectible Accounts		(200,000)	OM - 13				
40	U.S. Postage Increase		71,798	OM - 14				
41	Gas & Diesel		799,403	OM - 15				
42	Tree Trimming Expense		2,078,499	OM - 16				
43	NISource Corporate Allocations (NCSF)		(2,318,771)	OM - 17				
44	NIPSCO Common Allocations		3,187,121	OM - 18				
45	Advertising		(388,293)	OM - 19				
46	Selected Payments		(84,528)	OM - 20				
47	Indy Office Rent		28,785	OM - 21				
48	Property Insurance		2,087,188	OM - 22				
49	Sugar Creek Variable Cost		1,870,352	SCOM - 23				
50	Sugar Creek Operating and Maintenance Cost		4,048,947	SCOM - 24				
51	Medical benefit cost		(6,276,650)	OM - 25				
52	Total Operations and Maintenance	\$ 289,413,573	\$ 42,293,963		\$ 341,707,536	\$ 194,292		\$ 341,901,828
53	Depreciation Expenses	\$ 178,244,660			\$ 197,282,499			\$ 197,282,499
54	Depreciation Expense (Common Allocation)		227,322	DA - 1				
55	Depreciation Expense - New Rates and Sugar Creek		20,820,517	DA - 2				
56	Total Depreciation Expense	\$ 178,244,660	\$ 21,047,839		\$ 197,282,499	\$ -		\$ 197,282,499

* Operating Revenue at Proposed Rates (Line 2, Column H) excludes Utility Receipts Tax on fuel and purchased power.

Line No.	Description	Actual	Pro Forma Adjustments Increases (Decreases)	Ref.	Pro Forma Results Based on Current Rates	Pro Forma Adjustments Increases (Decreases)	Ref.	Pro Forma Results Based on Proposed Rates
	A	B	C	D	E	F	G	H
57	<u>Amortization Expense</u>	\$ 15,673,481			\$ 31,014,824	\$ -		\$ 31,014,824
58	Amortization Expense (Reg Assets) - MISO		8,258,052	DA - 3				
59	Amortization Expense (Reg Assets) - Rate Case		1,979,286	DA - 4				
60	Amortization Expense (Reg Assets) - Pure Air		(935,424)	DA - 5				
61	Amortization Expense - Computer Software		40,857	DA - 6				
62	Sugar Creek - Deferred Depreciation		1,459,852	SCDA - 7				
63	Sugar Creek - Deferred Carrying Charges		4,541,120	SCDA - 8				
64	Total Amortization Expense	\$ 15,673,481	\$ 15,341,343		\$ 31,014,824	\$ -		\$ 31,014,824
65	<u>Taxes</u>							
66	<u>Taxes Other than Income</u>	\$ 60,625,916			\$ 55,347,553			\$ 55,347,553
67	Real Estate/Personal Property Tax - Common Allocation		(1,045,127)	OTX - 1				
68	Federal Excise Tax - Common Allocation		(12,431)	OTX - 2				
69	State Sales Tax - Increase from 6% to 7%		98,809	OTX - 3				
70	Property Tax Expense - NonUtility		(18,872)	OTX - 4				
71	Payroll Tax		1,257,455	OTX - 5				
72	Indiana Utility Receipts Tax		(6,467,208)	OTX - 6		1,200,428	PF - 3	1,200,428
73	Public Utility Fee		211,216	OTX - 7		103,237	PF - 4	103,237
74	Sugar Creek Property Tax		697,593	SCOTX - 8				
75	Total Taxes Other Than Income	\$ 60,625,916	\$ (5,279,383)		\$ 55,347,553	\$ 1,303,664		\$ 56,651,217
76	<u>Income Taxes</u>							
77	Federal and State Taxes	\$ 90,098,476	\$ (11,868,829)	ITX - 1	\$ 78,229,647	\$ 34,207,368	PF - 5	\$ 112,437,015
78	Total Taxes	\$ 150,724,392	\$ (17,147,192)		\$ 133,577,200	\$ 35,511,033		\$ 169,088,233
79	Total Operating Expenses	\$ 642,056,106	\$ 61,535,053		\$ 703,592,059	\$ 35,705,325		\$ 739,297,384
80	Required Net Operating Income	\$ 168,493,726	\$ 4,562,579		\$ 173,056,305	\$ 50,039,503		\$ 223,095,808

* Operating Revenue at Proposed Rates (Line 2, Column H) excludes Utility Receipts Tax on fuel and purchased power.

Northern Indiana Public Service Company
Calculation of Proposed Revenue Increase
Based on Pro Forma Operating Results
Original Cost Rate Base Estimated at December 31, 2007

Line No.	Description	Revenue Deficiency
1	Net Original Cost Rate Base	\$ 2,665,421,829
2	Rate of Return	8.37%
3	Required Net Operating Income	223,095,808
4	Pro Forma Net Operating Income	173,056,305
5	Increase in Net Operating Income (NOI Shortfall)	50,039,503
6	Effective Incremental Revenue/NOI Conversion Factor	58.36%
7	Increase in Revenue Requirement (Based on Net Original Cost Rate Base) (Line 5 / Line 6)	\$ 85,744,828
8	One	1.000000
9	Less: Public Utility Fee	0.001204
10	Less: Bad Debt	0.002266
11	One Less PUF, IURT, Bad Debt	0.996530
12	One	1.000000
13	Less: Public Utility Fee	0.014000
14	Taxable Adjusted Gross Income Tax	0.986530
15	Adjusted Gross Income Tax Rate	0.085000
16	Adjusted Gross Income Tax	0.084705
17	Indiana Apportionment	0.986530
18	Indiana State Income Tax Rate	0.085000
19	Effective Indiana Income Tax Rate	0.084705
20	Line 11 less line 13 less line 19	0.897825
21	One	1.000000
22	Less: Federal Income Tax Rate	0.350000
23	One Less Federal Income Tax Rate	0.650000
24	Effective Incremental Revenue / NOI Conversion Factor	58.36%

Northern Indiana Public Service Company
Requested Revenue Increase Reconciliation
For the Twelve Month Period Ended December 31, 2007

Line No.	Description	Margin at Present Rates	Adjustment to Base Rates	Margin at Proposed Rates
	A	B	C	D
1	Base Revenue (less cost of fuel)	\$ 836,907,692	\$ 85,744,828	\$ 922,652,520
2	Add: ECRM	\$ -	\$ 25,627,423	\$ 25,627,423
3	Add: EERM	\$ -	\$ 14,113,249	\$ 14,113,249
4	Adjusted Base Revenue (less cost of fuel)	\$ 836,907,692	\$ 125,485,500	\$ 962,393,192
5	<u>Riders / Trackers:</u>			
6	ECRM	\$ 25,627,423	\$ (25,627,423)	\$ -
7	EERM	\$ 14,113,249	\$ (14,113,249)	\$ -
8	<u>Proposed:</u>			
9	Total Riders/Trackers	\$ 39,740,672	\$ 39,740,672	\$ -
10	Total Margin	\$ 876,648,364	\$ 85,744,828	\$ 962,393,192
11	Net Increase/(Decrease) in Base Rate Revenue		\$ 85,744,828	
12	Total Margin	\$ 876,648,364	\$ 85,744,828	\$ 962,393,192
13	Net Customer Bill Impacts, Net Increase (Decrease)		\$ 85,744,828	

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to reflect revenue levels under normal weather conditions.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Revenue	<u>\$ (14,604,146)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year revenue to reflect Economic Development Rider rates charged to customers in economic development contracts.

Line No.	Description A	Amount B
1	Increase in Pro Forma Test Year Revenue	<u>\$ 1,432,424</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year revenue to reflect the expiration of tariff rates in special contracts for certain large industrial customers.

Line No.	Description A	Amount B
1	Increase in Pro Forma Test Year Revenue	<u>\$ 80,082,674</u>

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 4
CORRECTED
September 24, 2008

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year revenue to reflect the removal of the reserve amount recorded in accordance with the settlement agreement in FAC 71.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Revenue	<u>\$ 33,500,000</u>

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 5
CORRECTED
September 24, 2008

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to reflect the amount related to the reversal of a reserve related to financial transactions.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Revenue	<u>\$ (2,203,737)</u>

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 6
CORRECTED
September 24, 2008

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue related to Rate 825 Metal Melters.

Line No.	Description	Amount
	A	B
1	Decrease In Pro Forma Test Year Revenue	<u>\$ (804,136)</u>

**Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 test year revenue to eliminate an unbilled adjustment booked in 2007 related to prior years.

Line No.	Description A	Amount B
1	Retail Rates	\$ 15,925,561
2	Other Revenue (Unbilled Deferred)	\$ (4,969,946)
3	Increase in Pro Forma Test Year Revenue	<u>\$ 10,955,615</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to remove off-system sales revenue recorded in 2007.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Revenue	<u>\$ (50,400,058)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to remove the sales of emission allowances in 2007.

Line No.	Description A	Amount B
1	Decrease in Pro Forma Test Year Revenue	\$ (11,790,599)

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to remove revenues related to MISO transmission rate schedules 7 and 8.

Line No.	Description A	Amount B
1	<u>Per FERC Form 1 (page 331)</u>	
2	MISO SCH 7	\$ 1,986,657
3	MISO SCH 7	\$ 1,340,653
4	MISO SCH 8	\$ 1,398,724
5	Decrease in Pro Forma Test Year Revenue	<u>\$ (4,726,034)</u>

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment FP - 1
CORRECTED
September 24, 2008

Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year fuel by the amount related to the pro forma revenue adjustment for normal weather.

Line No.	Description	Amount
	A	B
1	2007 Weather Normalization KWH	(163,302,530)
2	Base Cost of Fuel	<u>0.022556</u>
3	Decrease in Pro Forma Test Year Fuel	<u>\$ (3,683,450)</u>

Petitioner's Exhibit No. LEM -3
Cause No. 43526
Adjustment FP - 2
CORRECTED
September 24, 2008

**Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007**

This pro forma adjustment decreased 2007 test year fuel related to the pro forma revenue adjustment for Rate 825 Metal Melters.

Line No.	Description	Amount
	A	B
1	Decrease In Pro Forma Test Year Fuel	<u>\$ (628,813)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to correct for fuel handling expenses improperly charged to the DH Mitchell Station.

Line No.	Description	Amount
	A	B
1	Adjusted Fuel Handling Expense	\$ 605,349
2	Period in Years	<u>6</u>
3	Increase in Pro Forma Test Year O&M Expense	<u>\$ 100,891</u>

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment FP - 4

**Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 fuel expense to reflect increased costs for gas and diesel fuel.

Line No.	Description	Amount
		B
1	Increase in Pro Forma Test Year Fuel	<u>\$ 840,335</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year fuel related to 2007 off-system sales revenue.

Line No.	Description A	Amount B
1	Decrease in Pro Forma Test Year Fuel	<u>\$ (21,285,492)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect increased production expenses for contract labor levels.

Line No.	Description A	Amount B
1	Increase in Pro Forma Test Year O&M Expense	<u>\$ 1,006,664</u>

**Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 test year O&M expense to adjust variable operating costs required to operate generating facilities.

Line No.	Description	Amount
	A	B
1	Variable Operating Costs related to Redispatch	\$ 56,311,398
2	2007 Variable Operating Costs	<u>\$ 52,310,160</u>
3	Increase in Pro Forma Test Year O&M Expense	<u>\$ 4,001,238</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect pension costs.

Line No.	Description A	Amount B
1	Pension Expense (5-year average, 2004 - 2008)	\$ 2,139,542
2	Electric Allocation Rate	<u>69.15%</u>
3	Electric Portion	\$ 1,479,493
4	Capitalization Rate	<u>24.13%</u>
5	Electric Pension Expense Net of Capitalization	<u>\$ 1,122,491</u>
6	2007 Pension Expense	\$ (8,844,269)
7	Electric Allocation	<u>69.15%</u>
8	Electric Portion	\$ (6,115,812)
9	Capitalized Rate	<u>24.13%</u>
10	2007 Electric Pension Expense Net of Capitalization	<u>\$ (4,640,067)</u>
11	Increase in Pro Forma Test Year O&M Expense	<u>\$ 5,762,558</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense for increased costs related to post-retirement employee benefits.

Line No.	Description A	Amount B
1	2008 Post-Retirement Benefits	\$ 34,696,389
2	Electric Allocation Rate	<u>69.15%</u>
3	Electric Portion	\$ 23,992,553
4	Capitalization Rate	<u>24.13%</u>
5	2008 Post-Retirement Benefits, Net of Capitalization	<u>\$ 18,203,150</u>
6	Less: 2007 Post-Retirement Benefits	\$ 23,712,765
7	Electric Allocation Rate	<u>69.15%</u>
8	Electric Portion	\$ 16,397,377
9	Capitalization Rate	<u>24.13%</u>
10	2007 Post-Retirement Benefits, Net of Capitalization	<u>\$ 12,440,690</u>
11	Increase in Pro Forma Test Year O&M Expense	<u>\$ 5,762,460</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to adjust for employee wage increases.

Line No.	Description A	Amount B
1	NIPSCO Wage Increase	
2	Non-Union	\$ 1,824,108
3	Bargaining Unit	
4	Physical	\$ 6,722,178
5	Clerical	\$ 1,142,736
6	Total NIPSCO Wage Increases	\$ 9,689,022
7	Electric Allocation Rate	69.15%
8	Electric Portion	\$ 6,699,959
9	Capitalization Rate	24.13%
10	Capitalized Portion	\$ 1,616,700
11	Increase in Pro Forma Test Year O&M Expense	\$ 5,083,259

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to reflect ongoing levels of incentive compensation expenses.

Line No.	Description A	Amount B
1	2008 Incentive Accrual at Threshold	6,534,006
2	Capitalization Rate	<u>24.13%</u>
3	Less: Capitalized Portion	<u>1,576,656</u>
4	2008 Incentive Accrual at Threshold, Net of Capitalization	\$ 4,957,350
5	Less: 2007 Expense	
6	2007 Incentive Accrual, Net of Capitalization	\$ 5,965,030
7	O&M Adjustment Related to 2006 Incentive Expensed in 2007	<u>\$ 279,109</u>
8	Total 2007 Expense	<u>\$ 6,244,139</u>
9	Adjustment Required to Incentive Compensation	\$ (1,286,789)
10	Profit Sharing O&M Adjustment	<u>\$ (38,249)</u>
11	Total	\$ (1,325,038)
12	Electric Allocation Rate	<u>69.15%</u>
13	Decrease in Pro Forma Test Year O&M Expense	<u>\$ (916,264)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect increased costs related to retirement replacements for aging workforce.

Line No.	Description	Amount
	A	B
1	Aging Workforce (5-Year Forecast)	\$ 19,626,036
2	Number of Years	<u>5</u>
3	Increase in Pro Forma Test Year O&M Expense	<u>\$ 3,925,207</u>

L

**Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 test year O&M expense to reflect employee vacancies.

Line No.	Description A	Amount B
1	Gross	
2	Pay and Incentive	\$ 7,422,757
3	Benefits	<u>\$ 2,138,258</u>
4	Electric	
5	Electric Allocation Rate	69.15%
6	Pay and Incentive (Line 2 x Line 5)	\$ 5,132,836
7	Benefits (Line 3 x Line 5)	<u>\$ 1,478,605</u>
8	Capitalized Portion	
9	Capitalization Rate	24.13%
10	Capitalized Portion of Pay and Incentive (Line 6 x Line 9)	\$ 1,238,553
11	Capitalized Portion of Benefits (Line 7 x Line 9)	<u>\$ 356,787</u>
12	Allocated to Electric, Net of Capitalization	
13	O&M Net Electric- Pay & Incentive (Line 6 - Line 10)	\$ 3,894,283
14	O&M Net Electric- Benefits (Line 7 - Line 11)	<u>\$ 1,121,818</u>
15	Increase in Pro Forma Test Year O&M Expense	<u>\$ 5,016,101</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect additional staffing costs due to organizational structure changes.

Line No.	Description A	Amount B
1	Pay and Incentive	\$ 5,012,218
2	Benefits	\$ 1,401,571
3	Increase in Pro Forma Test Year O&M Expense	<u>\$ 6,413,789</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense related to new safety programs for the electric line safety initiative required by NESC standards.

Line No.	Description	Amount
	A	B
1	Payroll & Incentive	\$ 194,629
2	Purchases	\$ 340,000
3	Benefits	<u>\$ 56,631</u>
4	Total Safety Expenses	<u>\$ 591,260</u>
5	Capitalization Rate	24.13%
6	Capitalized Portion	<u>\$ 142,671</u>
7	Increase in Pro Forma Test Year O&M Expense	<u>\$ 448,589</u>

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 11
CORRECTED
September 24, 2008

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to eliminate the Edison Electric Institute (EEI) dues related to lobbying.

Line No.	Description	Amount
	A	B
1	Adjustment to remove lobbying activities from 2007 invoice	\$ (128,013)
2	Adjustment of the net difference between the 2006 accrual and actual payment made in 2007	\$ 72,588
3	Decrease in Pro Forma Test Year O&M Expense	\$ (55,425)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 12
CORRECTED
September 24, 2008

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to eliminate general and goodwill advertising costs.

Line No.	Description A	Amount B
1	2007 General Advertising	\$ 59,692
2	1Q Common Allocation Adjustment	\$ 371
3	Decrease in Pro Forma Test Year O&M Expense	\$ (60,063)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 13
CORRECTED
September 24, 2008

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to reflect the ongoing level of bad debt expense per the Bailly N1 Refund Order, Cause No. 37972.

Line No.	Description A	Amount B
1	Decrease in Pro Forma Test Year O&M Expense	<u>\$ (200,000)</u>

**Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 test year O&M expense to reflect the annualization of the U.S. postage increases for May 2007 and May 2008.

Line No.	Description	Amount
	A	B
1	Increase for annualization of May 14, 2007 Postage increase	\$ 64,319
2	Increase for annualization of May 12, 2008 Postage increase	<u>\$ 119,821</u>
3	Total Increased Postage Costs	<u>\$ 184,140</u>
4	Common Allocation Customer Ratio	<u>38.99%</u>
5	Increase in Pro Forma Test Year O&M Expense	<u>\$ 71,796</u>

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 15

**Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 O&M expense to reflect increased costs for gas and diesel fuel.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year O&M Expense	\$ 799,403

**Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 test year O&M Expense to reflect higher vegetation management and tree trimming expenses.

Line No.	Description	Amount
	A	B
1	Vegetation Management and Tree Trimming Expenses (2008 - 2012 Estimate)	\$ 61,139,470
2	Number of Years	<u>5</u>
3	Average Annual Expense	\$ 12,227,894
4	2007 Actuals	<u>\$ 10,149,395</u>
5	Increase in Pro Forma Test Year O&M Expense	<u>\$ 2,078,499</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to adjust for NiSource corporate services fees.

Line No.	Description A	Amount B
1	Decrease in Pro Forma Test Year O&M Expense	<u>\$ (2,318,771)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to annualize a change resulting from an improvement in NIPSCO allocation methodology.

Line No.	Description A	Amount B
1	Increase in Pro Forma Test Year O&M Expense	<u>\$ 3,187,121</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense for non-recoverable advertising costs.

Line No.	Description A	Amount B
1	Allowable Advertising	\$ 250,721
2	2007 Actual Advertising Allocated to Electric	\$ 617,014
3	Decrease in Pro Forma Test Year O&M Expense	\$ (366,293)

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to reflect certain non-recoverable charges.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year O&M Expense	<u>\$ (84,528)</u>

**Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 test year O&M expense to reflect office leasing fees for the new Indianapolis office.

Line No.	Description	Amount
	A	B
1	Annual Rent Per lease	\$ 76,635
2	Less: Lobbying Portion (12' x 12' office)	\$ 2,808
3	Net Annual Rent Per Lease	\$ 73,827
4	Common Allocation Customer Ratio	38.99%
5	Increase in Pro Forma Test Year O&M Expense	\$ 28,785

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect higher property insurance costs due to increased insurance premiums effective July 2008 .

Line No.	Description A	Amount B
1	NIPSCO Property Insurance 2008 / 2009	\$ 7,204,113
2	NIPSCO Property Insurance 2007	\$ 5,136,924
3	Increase in Pro Forma Test Year O&M Expense	<u>\$ 2,067,189</u>

Petitioner's Exhibit LEM-3 (Revised)
Northern Indiana Public Service Company
Cause No. 43526
Adjustment SCOM - 23

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to adjust for Sugar Creek variable operating costs.

Line No.	Description A	Amount B
1	Maintenance Parts & Service	\$ 447,069
2	Long-Term Service Agreement	\$ 1,274,300
3	Chemicals	\$ 148,983
4	Increase in Pro Forma Test Year O&M Expense	\$ 1,870,352

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to adjust for other Sugar Creek operating and maintenance costs.

Line No.	Description A	Amount B
1	Increase in Pro Forma Test Year O&M Expense	<u>\$ 4,048,947</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to adjust for correction of active medical benefit costs.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year O&M Expense	<u>\$ (5,276,650)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to reflect the change in common allocation methodology.

Line No.	Description A	Amount B
1	Increase In Pro Forma Test Year Depreciation and Amortization Expense	\$ 227,322

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to reflect the expense amount calculated using new depreciation rates per the depreciation study.

Line No.	Description A	Amount B
1	2007 Actual Depreciation Expense	\$ 176,244,660
2	D&A Study Depreciation Expense	\$ 185,828,320
3	Sugar Creek Depreciation Expense	\$ 11,236,857
4	Total Depreciation - New Rates and Sugar Creek	<u>\$ 197,065,177</u>
5	Increase in Pro Forma Test Year Depreciation and Amortization Expense	<u>\$ 20,820,517</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to account for the amortization of deferred MISO charges through December 31, 2008 over a three year period.

Line No.	Description A	Amount B
1	Deferred MISO Charges @ 12/31/2007	\$ 13,990,057
2	Estimated Deferred MISO Charges 1/1/2008 thru 12/31/2008	<u>\$ 10,778,099</u>
3	Total Estimated Deferred MISO Charges	\$ 24,768,156
4	Amortization Period in Years	<u>3</u>
5	Increase in Pro Forma Test Year Depreciation and Amortization Expense	<u>\$ 8,256,052</u>

**Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December, 31 2007**

This pro forma adjustment increased 2007 test year depreciation and amortization expense for rate case costs amortized over a three year period.

Line No.	Description	Amount
	A	B
1	Estimated Rate Case Expenses	\$ 5,937,859
2	Amortization Period in Years	<u>3</u>
3	Increase in Pro Forma Test Year Depreciation and Amortization Expense	<u>\$ 1,979,286</u>

**Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007**

This pro forma adjustment decreased 2007 test year depreciation and amortization expense to eliminate the amortization costs of deferred pure air charges (Bailly Generating Station Scrubber). These charges will be fully amortized in 2008.

Line No.	Description A	Amount B
1	Decrease in Pro Forma Test Year Depreciation and Amortization Expense	<u>\$ (935,424)</u>

**Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 test year depreciation and amortization expense related to computer software costs allocated to common in the 1st quarter of 2007.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Depreciation and Amortization Expense	<u>\$ 40,657</u>

Sugar Creek
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to amortize costs of deferred depreciation on Sugar Creek per Cause No. 43396.

Line No.	Description A	Amount B
1	Annual Depreciation	\$ 11,236,857
2	Annual Reduction (FAC71-S1)	\$ 4,500,000
3	Annual Depreciation Deferred	\$ 6,736,857
4	Months (December 1, 2008 through December 31, 2009)	13
5	Total Depreciation Deferred (Line 3 divided by 12, multiplied by 13)	\$ 7,298,262
6	Amortization Period in Years Per Cause No. 43396	5
7	Increase in Pro Forma Test Year Depreciation and Amortization Expense	\$ 1,459,652

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Depreciation Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to amortize the costs of deferred carrying charges on Sugar Creek per Cause No. 43396.

Line No.	Description A	Amount B
1	Sugar Creek Plant Cost (NBV at December 1, 2008)	\$ 322,446,401
2	Annual Interest Rate	6.50%
3	Annual Deferred Carrying Charges	\$ 20,959,016
4	Months (December 1, 2008 through December 31, 2009)	13
5	Deferred Carrying Charges for Sugar Creek (Line 3 divided by 12, multiplied by 13)	\$ 22,705,601
6	Amortization Period in Years Per Cause No. 43396	5
7	Increase in Pro Forma Test Year Depreciation and Amortization Expense	\$ 4,541,120
8		
	Deferred Carrying Charges for Sugar Creek	\$ 22,705,601
	Amortization Period in Years Per Cause No. 43396	5
	Increase in Pro Forma Test Year Depreciation and Amortization Expense	\$ 4,541,120

**Nothern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007**

This pro forma adjustment decreased 2007 test year taxes other than income for electric property tax decreases due to changes in the common allocation methodology.

Line No.	Description	Amount
	A	B
1	2008 Electric Property Taxes	\$ 32,585,239
2	2007 Electric Property Taxes	<u>\$ 33,630,366</u>
3	Decrease in Pro Forma Test Year Taxes Other Than Income	<u>\$ (1,045,127)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year taxes other than income for the Federal Excise Tax allocated to common in the 1st quarter of 2007.

Line No.	Description A	Amount B
1	Decrease in Pro Forma Test Year Taxes Other Than Income	\$ (12,431)

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year taxes other than income to adjust for the increase in the state sales tax rate from six percent to seven percent.

Line No.	Description	Amount
	A	B
1	Sales Tax charged to Electric O&M	\$ 592,853
2	2007 Sales Tax Rate	<u>6.00%</u>
3	Taxable Purchases	\$ 9,880,883
4	New Sales Tax Rate	<u>7.00%</u>
5	Adjustable Taxable Purchases	\$ <u>691,662</u>
6	Increase in Pro Forma Test Year Taxes Other Than Income (Line 5 - Line 1)	\$ <u>98,809</u>

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OTX - 4

**Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007**

This pro forma adjustment decreased 2007 test year taxes other than income to remove non-utility property taxes that were misclassified.

Line No.	Description	Amount
1	Decrease in Pro Forma Test Year Taxes Other Than Income	<u>\$ (18,672)</u>

**Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007**

This pro forma adjustment increased 2007 test year taxes other than income to adjust for payroll, incentive, social security and hospital insurance adjustments.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Taxes Other Than Income	<u>\$ 1,257,455</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year taxes other than income for the utility receipts tax related to the pro forma revenue adjustments.

Line No.	Description	Amount
	A	B
1	2007 Pro Forma Revenue	\$ 1,400,964,753
2	Add:	
3	Costruction Advances and Contribution in Aid	\$ 1,192,407
4	Less:	
5	Interdepartmental Electric Sales Revenue	\$ 2,887,915
6	Bad Debts - Electric	\$ 3,174,492
7	Rent from Electric Property	\$ 1,858,242
8	Other Electric Revenues	\$ 28,390,023
9	Sales for Resale	\$ 1,008,737
10	Exempt Sales	\$ 1,788,991
11	Taxable Amount	\$ 1,363,048,760
12	Utility Receipts Tax Rate	1.40%
13	Electric Utility Receipts Tax	\$ 19,082,682
14	Less:	
15	Actual 2007 Utility Receipts Tax Expense	\$ 18,372,838
16	Utility Receipts Tax on Pro Forma Revenue	\$ 709,844
17	Less:	
18	Utility Receipts Tax on Trackable Fuel and Purchased Power (Adjustment OTX-6A)	\$ 7,177,052
19	Decrease in Pro Forma Test Year Taxes Other Than Income	\$ (6,467,208)

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This is the Utility Receipts Tax embedded in test year operating revenue related to fuel and purchased power.

Line No.	Description A	Amount B
1	Fuel and Purchased Power	\$ 524,316,389
2	Less:	
3	Non-Trackable Fuel Costs (Fuel Handling Expenses)	\$ 11,669,787
4	Trackable Fuel and Purchased Power	\$ 512,646,602
5	Utility Receipts Tax Rate	1.40%
6	Electric Utility Receipts Tax on Trackable Fuel and Purchased Power	\$ 7,177,052

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year taxes other than income for the public utility fee related to the 2007 pro forma revenue at present rates.

Line No.	Description	Amount
	A	B
1	2007 Electric Revenues	\$ 1,400,964,753
2	Less:	
3	Sales for Resale	\$ 1,008,737
4	Interdepartmental Electric Sales Revenue	\$ 2,887,915
5	Forfeited Discounts	\$ 3,713,444
6	Miscellaneous Service Revenues	\$ 930,140
7	Rent from Electric Property	\$ 1,858,242
8	Other Electric Revenues	\$ 28,390,023
9	Bad Debt - Electric	\$ 3,174,492
10	Taxable Amount	\$ 1,359,001,760
11	Public Utility Fee Rate	0.1204%
12	Public Utility Fee	\$ 1,636,229
13	Less: Actual 2007 Public Utility Fee Expense	\$ 1,425,020
14	Increase in Pro Forma Test Year Taxes Other Than Income	\$ 211,209

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year taxes other than income to adjust for electric property taxes for Sugar Creek for December 2008 through November 2009.

Line No.	Description	Amount
	A	B
1	Sugar Creek Property Taxes: December 2008 - November 2009	\$ 697,593
2		\$ -
3	Increase Pro Forma Test Year Taxes Other Than Income	<u>\$ 697,593</u>

Northern Indiana Public Service Company
Pro Forma Adjustment to Income Taxes
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year income taxes to adjust for the pro forma level of pre-tax income utilization of the interest synchronization method.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Income Taxes	\$ (11,868,829)

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year revenue requirement based on an 8.37% rate of return on a net original cost rate base of \$2,665,437,036

Line No.	Description A	Amount B
1	Actual Net Operating Income	\$ 173,056,305
2	Required Net Operating Income	<u>\$ 223,095,808</u>
3	Surplus (Deficit)	\$ (50,039,503)
4	Tax Gross-Up Rate	<u>1.713542749</u>
5	Increase in Pro Forma Test Year Revenue Requirement Based on Proposed Rates	<u>\$ (85,744,828)</u>

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased 2007 test year O&M expense to reflect the level of uncollectible accounts based on the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	\$ 85,744,828
2	Uncollectible Accounts Rate	<u>0.226593%</u>
3	Increase in Pro Forma Test Year O&M Expense Based on Proposed Rates	<u>\$ 194,292</u>

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year taxes other than income to reflect the Indiana utility receipts tax associated with the proposed revenue requirement increase.

Line No.	Description	Amount
	A	B
1	Gross Margin Deficiency	\$ 85,744,828
2	IURT Rate	<u>1.40%</u>
3	Increase in Pro Forma Test Year Taxes Other Than Income Based on Proposed Rates	<u>\$ 1,200,428</u>

Petitioner's Exhibit LEM-3 (Revised)
Northern Indiana Public Service Company
Cause No. 43526
Adjustment PF - 4

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year taxes other than income to reflect the public utility fees associated with the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	\$ 85,744,828
2	Public Utility Fee Rate	<u>0.1204%</u>
3	Increase in Pro Forma Test Year Taxes Other Than Income Based on Proposed Rates	<u>\$ 103,237</u>

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year income taxes to reflect the federal and state income taxes applied to the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	\$ 85,744,828
2	Effective Federal Tax Rate	31.423875%
3	Effective State Tax Rate	<u>8.470506%</u>
4	Increase in Pro Forma Test Year Income Taxes Based on Proposed Rates	<u>\$ 34,207,368</u>

Rate Base
Actual, Jurisdictional, As Updated
Twelve Months Ended December 31, 2007

Line No.	Description	Actual	Updates	Total
	A	B	C	D
1	RATE BASE			
2	Utility Plant	\$ 4,967,588,851	\$ 237,989,897	\$ 5,205,578,748
3	Common Allocated	213,322,211	1,180,329	214,502,540
4	Less Disallowed Plant: Unit 17	<u>31,733,655</u>	<u>-</u>	<u>31,733,655</u>
5	Total Utility Plant	5,149,177,407	239,170,226	5,388,347,633
6	Accumulated Depreciation and Amortization	(2,883,773,255)	83,392,777	(2,800,380,478)
6a	SC Accumulated Depreciation and Amortization	-	(5,618,432)	(5,618,432)
7	Common Allocated	(97,073,378)	(1,335,790)	(98,409,168)
8	Less Disallowed Plant: Unit 17	<u>(27,399,652)</u>	<u>-</u>	<u>(27,399,652)</u>
9	Total Accumulated Depreciation and Amortization	<u>(2,953,446,981)</u>	<u>76,438,555</u>	<u>(2,877,008,426)</u>
10	Net Utility Plant	2,195,730,426	315,608,781	2,511,339,207
11	Pure Air Deferred Charges	526,218	-	526,218
12	Unit 17 Depreciation	542,928	-	542,928
13	Unit 18 Depreciation	5,206,694	-	5,206,694
14	Unit 18 Carrying Charges	16,132,193	-	16,132,193
15	Prepaid Pension Asset	25,705,004	-	25,705,004
16	Materials & Supplies	46,907,735	-	46,907,735
16a	Materials & Supplies	-	1,495,291	1,495,291
17	Production Fuel	<u>57,568,559</u>	<u>-</u>	<u>57,568,559</u>
18	Total Rate Base	<u>\$ 2,348,317,757</u>	<u>\$ 317,104,072</u>	<u>\$ 2,665,421,829</u>
19	REQUIRED NET OPERATING INCOME			
20	Total Rate Base			\$ 2,665,421,829
21	Rate of Return			<u>8.37%</u>
22	Required Net Operating Income			<u>\$ 223,095,808</u>

Summary of Rate Base Updates
December 31, 2007 As Updated

Line No	Description	Exhibit No.	Debit	Credit
	A	B	C	D
1	<u>Rate Base Updates:</u>			
2	DH Mitchell Plant Retirement			
3	Mitchell Units 4, 5, 6, 11, and 9A- Plant-in-Service	RB - 1	\$ -	\$ 175,909,015
4	Mitchell Units 4, 5, 6, 11 and 9A - Accumulated Depreciation	RB - 2	\$ 178,072,088	\$ -
5	Michigan City 2&3 Plant Retirement			
6	MC Units 2 & 3 - Plant-in-Service	RB - 3	\$ -	\$ 19,395,755
7	MC Units 2 & 3 - Accumulated Depreciation	RB - 4	\$ 18,096,416	\$ -
8	Seven Factor Test			
9	Gross Plant	RB - 5	\$ 123,243,367	\$ 123,243,367
10	Accumulated Depreciation and Amortization	RB - 6	\$ 48,919,630	\$ 48,919,630
11	All Other Transfers / Corrections			
12	Electric			
13	Gross Plant	RB - 7	\$ 148,573,386	\$ 43,343,552
14	Accumulated Depreciation	RB - 8	\$ 17,622,081	\$ 130,397,808
15	Common			
16	Gross Plant	RB - 9	\$ 1,180,329	\$ -
17	Accumulated Depreciation	RB - 10	\$ -	\$ 1,335,790
18	Sugar Creek Material and Supplies	RB - 11	\$ 1,495,291	
19	Sugar Creek Gross Plant	RB - 12	\$ 328,064,833	
20	Accumulated Depreciation	RB - 13		\$ 5,618,432
21	Total Rate Base Updates		\$ 865,267,421	\$ 548,163,349
22	Net Increase / (Decrease)		\$ 317,104,072	

Capital Structure
December 31, 2007 As Adjusted

Line No.	Description	Total Company Capitalization	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E
1	Common Equity	\$ 1,395,245,772	49.94%	12.00%	5.99%
2	Long-Term Debt	\$ 906,997,137	32.47%	6.56%	2.13%
3	Customer Deposits	\$ 63,684,199	2.28%	6.00%	0.14%
4	Deferred Income Taxes	\$ 294,780,249	10.55%	0.00%	0.00%
5	Post-Retirement Liability	\$ 102,637,766	3.66%	0.00%	0.00%
6	Post-1970 ITC	\$ 30,350,460	1.09%	9.86%	0.11%
7	Totals	<u>\$ 2,793,695,583</u>	<u>100.00%</u>		<u>8.37%</u>

Cost of Investor Supplied Capital

	Description	Total Company Capitalization	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E
8	Common Equity	\$ 1,395,245,772	60.60%	12.00%	7.28%
9	Long-Term Debt	<u>\$ 906,997,137</u>	<u>39.40%</u>	6.56%	<u>2.58%</u>
10	Totals	<u>\$ 2,302,242,909</u>	<u>100.00%</u>		<u>9.87%</u>

Capital Structure
December 31, 2007 As Adjusted

Line									Weighted
No.	Description	2007 Actuals	Debit	Credit	Ref.	Pro Forma Balance	Percent of Total	Cost	Average Cost
	A	B	C	D	E	F	G	H	I
1	Common Equity	\$ 1,394,077,564	\$ -	\$ 1,168,208	CS - 1	\$ 1,395,245,772	49.94%	12.00%	5.99%
2	Long-Term Debt	\$ 746,997,137	\$ -	\$ 160,000,000	CS - 2	\$ 906,997,137	32.47%	6.56%	2.13%
3	Customer Deposits	\$ 63,684,199	\$ -	\$ -		\$ 63,684,199	2.28%	6.00%	0.14%
4	Deferred Income Taxes	\$ 293,984,257	\$ -	\$ 795,992	CS - 3	\$ 294,780,249	10.55%	0.00%	0.00%
5	Retirement Liability	\$ 112,678,496	\$ 10,040,730		CS - 4	\$ 102,637,766	3.66%	0.00%	0.00%
6	Post-1970 ITC	\$ 30,350,460	\$ -	\$ -		\$ 30,350,460	1.09%	9.86%	0.11%
7	Totals	\$ 2,641,772,113	\$ 10,040,730	\$ 161,964,200		\$ 2,793,695,583	100.00%		8.37%

Cost of Long-Term Debt
December 31, 2007 As Adjusted

Line No.	Rate A	Description B	Date of Issuance C	Date of Maturity D	Principal Amount E	Interest Requirement F	Cost Rate G
		Pollution Control (1)					
1	5.75%	Series 1988 Notes Series A	November 3, 1988	November 1, 2016	\$ 37,000,000	\$ 2,127,500	
2	5.75%	Series 1988 Notes Series B	November 3, 1988	November 1, 2016	\$ 47,000,000	\$ 2,702,500	
3	5.75%	Series 1988 Notes Series C	November 3, 1988	November 1, 2016	\$ 46,000,000	\$ 2,645,000	
4	4.75%	Series 1994 A Notes	August 25, 1994	August 1, 2010	\$ 10,000,000	\$ 475,000	
5	5.25%	Series 1994 B Notes	August 25, 1994	June 1, 2013	\$ 18,000,000	\$ 945,000	
6	6.00%	Series 1994 C Notes	August 25, 1994	April 1, 2019	\$ 41,000,000	\$ 2,460,000	
7	5.875%	Series 2003 C Notes	December 1, 2003	July 1, 2017	\$ 55,000,000	\$ 3,231,250	
		Intercompany Long-Term Debt					
8		Intercompany LT Note 5.42%	June 28, 2005	June 26, 2020	\$ 137,500,000	\$ 7,452,500	
9	5.42%	Intercompany LT Note 5.42%	June 28, 2005	June 27, 2015	\$ 137,500,000	\$ 7,163,750	
10	5.21%	Intercompany LT Note 5.21%	September 18, 2005	September 18, 2025	\$ 75,000,000	\$ 4,492,500	
11	5.99%	Intercompany LT Note 5.985%					
		Medium-Term Notes					
12		Various Maturities			\$ 165,200,000	\$ 12,290,880	
13	7.44%						
		Long-Term Debt					
14		LT Note 6.09% - Refinancing	June 6, 2008	June 6, 2018	\$ 80,000,000	\$ 4,872,000	
15	6.09%	LT Note 6.09% - Refinancing	June 6, 2008	June 6, 2023	\$ 80,000,000	\$ 5,220,000	
16	6.525%	LT Note 6.525% - Refinancing					
17		Total Long-Term Debt Per Balance Sheet			<u>\$ 929,200,000</u>	<u>\$ 56,077,880</u>	
18		Related Accounts:					
19		Unamortized Debt Discount and Expense (2)			\$ (6,622,844)	\$ -	
20		Unamortized Call Premiums on Early Redemption of Long Term Debt			\$ (15,580,019)	\$ -	
21		Amortization of Debt Discount and Expense (3)			\$ -	\$ 707,015	
22		Amortization of Call Premiums on Early Redemption of Long Term Debt			\$ -	\$ 2,674,576	
23		Total Long-Term Debt Used to Calculate Weighted Cost			<u>\$ 906,997,137</u>	<u>\$ 59,459,471</u>	<u>6.56%</u>
24		(1) Projected rates from pending reoffering of Pollution Control Notes					
25		(2) Increased the Unamortized Debt Discount and Expense by \$ 850,000 for reoffering of Pollution Control Notes					
26		(3) Increased Amortization of Debt Discount and Expense by \$ 119,076 for reoffering of Pollution Control Notes					

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

Petitioner's Exhibit No. LEM - 10
Cause No. 43526
Page 1 of 9

Line No.			Line No.
1	Capacity Purchases (Page 2 of 9)	\$ 2,100,000	1
2	MISO Costs - Demand Allocated (Page 4 of 9)	3,000	2
3	Total Reliability Adjustment Demand Allocated Charges (Credits)	\$ 2,103,000	3
4	Purchased Power Purchases (Page 3 of 9)	\$ 24,750,000	4
5	MISO Costs - Energy Allocated (Page 4 of 9)	750,000	5
6	Off System Sales Net Revenue (Pge 5 of 9)	(480,000)	6
7	Total Reliability Adjustment Energy Allocated Charges (Credits)	\$ 25,020,000	7

Demand Allocated Charges				Energy Allocated Charges			
Rate Code	Production Allocation	% of Total	Total Demand Allocated Costs Col. c x Total Col. d	Forecasted KWH Sales for Quarter	Percent of Total Sales	Total Energy Allocated Costs Col. f x Total Col. g	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	
8 511	\$ 422,891,887	34.91%	\$ 734,157	1,000,000	22.517%	\$ 5,633,866	8
9 521	30,582,843	2.52%	52,996	110,000	2.477%	619,725	9
10 523	164,025,617	13.54%	284,746	550,000	12.385%	3,098,626	10
11 526	11,600,134	0.96%	20,189	65,000	1.464%	366,201	11
12 527	8,753,270	0.72%	15,142	75,000	1.689%	422,540	12
13 533	238,348,307	19.67%	413,660	900,000	20.266%	5,070,480	13
14 534	271,111,737	22.37%	470,441	1,175,000	26.458%	6,619,793	14
15 536	56,614,273	4.67%	98,210	515,000	11.596%	2,901,441	15
16 541	1,253,830	0.10%	2,103	7,000	0.158%	39,437	16
17 544	623,071	0.05%	1,052	5,000	0.113%	28,169	17
18 545	433,565	0.04%	841	6,000	0.135%	33,803	18
19 550	905,717	0.07%	1,472	13,000	0.293%	73,240	19
20 555	489,448	0.04%	841	2,500	0.056%	14,085	20
21 560	264,034	0.02%	421	14,000	0.315%	78,874	21
22 Interdepartmental	3,908,418	0.32%	6,730	3,500	0.079%	19,719	22
23 Total	\$ 1,211,806,151	100.00%	\$ 2,103,000	4,441,000	100.000%	\$ 25,020,000	23

Rate Code	Total Capacity Purchase Costs Col. d	Total Energy Purchase Costs Col. g	Variance	Total Costs Col. i + i + k	Reliability Adjustment Rate Col. (f) / (e)	Reliability Adjustment Rate Modified for URTRS & AGIT	
(h)	(i)	(j)	(k)	(l)	(m)	(n)	
24 511	\$ 734,157	\$ 5,633,866	\$ 112,587	\$ 6,480,611	6.4806	6.581	24
25 521	52,996	619,725	12,385	685,105	6.2282	6.325	25
26 523	284,746	3,098,626	61,923	3,445,296	6.2642	6.362	26
27 526	20,189	366,201	7,318	393,708	6.0571	6.151	27
28 527	15,142	422,540	8,444	446,126	5.9483	6.041	28
29 533	413,660	5,070,480	101,329	5,585,468	6.2061	6.303	29
30 534	470,441	6,619,793	132,290	7,222,524	6.1468	6.242	30
31 536	98,210	2,901,441	57,982	3,057,634	5.9372	6.029	31
32 541	2,103	39,437	788	42,328	6.0469	6.141	32
33 544	1,052	28,169	563	29,784	5.9568	6.049	33
34 545	841	33,803	676	35,320	5.8867	5.978	34
35 550	1,472	73,240	1,464	76,176	5.8597	5.951	35
36 555	841	14,085	281	15,207	6.0829	6.177	36
37 560	421	78,874	1,576	80,871	5.7765	5.868	37
38 Interdepartmental	6,730	19,719	394	26,842	7.6692	7.788	38
39 Total	\$ 2,103,000	\$ 25,020,000	\$ 500,000	\$ 27,623,000			39

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of Capacity Costs to be included in Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

LINE NO.	SUPPLIER	MWH PURCHASED	AMOUNT	LINE NO.
Capacity Purchases				
1	January 20XX	500	\$ 700,000	1
2	February 20XX	500	700,000	2
3	March 20XX	500	700,000	3
4	TOTAL to be included in Reliability Adjustment	1,500	\$ 2,100,000	4

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of Purchased Power Costs to be included in Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

LINE NO.	SUPPLIER	MWH PURCHASED	AMOUNT	LINE NO.
<u>Energy Purchases</u>				
1	<u>January 20XX</u>			1
2	Purchases through MISO	40,000	\$ 2,200,000	2
3	Purchased Power other than MISO	90,000	4,950,000	3
4	TOTAL	130,000	\$ 7,150,000	4
5	<u>February 20XX</u>			5
6	Purchases through MISO	50,000	\$ 2,750,000	6
7	Purchased Power other than MISO	100,000	5,500,000	7
8	TOTAL	150,000	\$ 8,250,000	8
9	<u>March 20XX</u>			9
10	Purchases through MISO	45,000	\$ 2,475,000	10
11	Purchased Power other than MISO	125,000	6,875,000	11
12	TOTAL	170,000	\$ 9,350,000	12
13	TOTAL to be included in Reliability Adjustment	450,000	\$ 24,750,000	13

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of MISO to be included in Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

<u>LINE NO.</u>	<u>SUPPLIER</u>	<u>AMOUNT</u>	<u>LINE NO.</u>
	<u>MISO Charges</u>		
1	January , 20XX	\$ 1,000	1
2	February, 20XX	1,000	2
3	March, 20XX	<u>1,000</u>	3
4	Total MISO Charges - demand allocated	<u>\$ 3,000</u>	4
5	January , 20XX	\$ 250,000	5
6	February, 20XX	250,000	6
7	March, 20XX	<u>250,000</u>	7
8	Total MISO Charges - energy allocated	<u>\$ 750,000</u>	8
9	TOTAL to be included in Reliability Adjustment	<u>\$ 753,000</u>	9

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of Off System Sales Net Revenue included in Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

<u>LINE NO.</u>		<u>MWH SOLD</u>	<u>REVENUES & FUEL COST</u>	<u>LINE NO.</u>
	<u>January 20XX</u>			
1	Revenues :			1
2	Intersystem Sales through MISO	8,000	\$ 400,000	2
3	Costs :			3
4	Intersystem Sales through MISO	8,000	<u>240,000</u>	4
5	Net Revenue		<u>\$ 160,000</u>	5
	<u>February 20XX</u>			
6	Revenues :			6
7	Intersystem Sales through MISO	6,000	\$ 300,000	7
8	Costs :			8
9	Intersystem Sales through MISO	6,000	<u>180,000</u>	9
10	Net Revenue		<u>\$ 120,000</u>	10
	<u>March 20XX</u>			
11	Revenues :			11
12	Intersystem Sales through MISO	10,000	\$ 500,000	12
13	Costs :			13
14	Intersystem Sales through MISO	10,000	<u>300,000</u>	14
15	Net Revenue		<u>\$ 200,000</u>	15
16	TOTAL to be deducted from Reliability Adjustment		<u>\$ 480,000</u>	16

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Reconciliation of Reliability Adjustment
For the Months of
Month A, Month B and Month C 20XX

Line No.	Rate Code	Reliability Adjustment Costs Recovered	Variance from RA - 01	Reliability Adjustment Costs to be Reconciled with Actual Costs Incurred <u>Col. b less Col. c</u>	Actual Reliability Adjustment Costs	Variance <u>Col. e less Col. d</u>	Line No.
	(a)	(b)	(c)	(d)	(e)	(f)	
1	511	\$ 2,138,602	\$ 112,587	\$ 2,026,014	\$ 2,038,269	\$ 12,254	1
2	521	230,445	12,385	218,060	221,409	3,349	2
3	523	1,127,551	61,923	1,065,628	1,083,669	18,040	3
4	526	133,255	7,318	125,937	128,898	2,961	4
5	527	148,709	8,444	140,264	144,579	4,315	5
6	533	1,861,823	101,329	1,760,494	1,791,312	30,818	6
7	534	2,458,732	132,290	2,326,442	2,368,709	42,268	7
8	536	1,021,190	57,982	963,208	993,255	30,047	8
9	541	15,117	788	14,329	14,601	272	9
10	544	11,914	563	11,351	11,527	177	10
11	545	11,773	676	11,098	11,476	379	11
12	550	23,439	1,464	21,975	22,902	927	12
13	555	4,866	281	4,585	4,713	128	13
14	560	6,932	1,576	5,356	6,865	1,510	14
15	Interdept.	38,346	394	37,952	29,815	(8,137)	15
16		<u>\$ 9,232,693</u>	<u>\$ 500,000</u>	<u>\$ 8,732,693</u>	<u>\$ 8,872,000</u>	<u>\$ 139,307</u>	16

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Reconciliation of Reliability Adjustment
For the Months of
Month

Line No.	Rate Code	KWH Sales (000's)	RT - 1 Reliability Adjustment Rate	Reliability Adjustment Costs Recovered Col. a x Col. c	Variance from RT - 01	Reliability Adjustment Costs to be Reconciled with Actual Costs Incurred Col. d less Col. e	Actual Reliability Adjustment Costs	Variance Col. f less Col. g	Line No.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
1	511	330,000	6.4806	\$ 2,138,602	\$ 112,587	\$ 2,026,014	\$ 2,038,269	\$ 12,254	1
2	521	37,000	6.2282	230,445	12,385	218,060	221,409	3,349	2
3	523	180,000	6.2642	1,127,551	61,923	1,065,628	1,083,669	18,040	3
4	526	22,000	6.0571	133,255	7,318	125,937	128,898	2,961	4
5	527	25,000	5.9483	148,709	8,444	140,264	144,579	4,315	5
6	533	300,000	6.2061	1,861,823	101,329	1,760,494	1,791,312	30,818	6
7	534	400,000	6.1468	2,458,732	132,290	2,326,442	2,368,709	42,268	7
8	536	172,000	5.9372	1,021,190	57,982	963,208	993,255	30,047	8
9	541	2,500	6.0469	15,117	788	14,329	14,601	272	9
10	544	2,000	5.9568	11,914	563	11,351	11,527	177	10
11	545	2,000	5.8867	11,773	676	11,098	11,476	379	11
12	550	4,000	5.8597	23,439	1,464	21,975	22,902	927	12
13	555	800	6.0829	4,866	281	4,585	4,713	128	13
14	560	1,200	5.7765	6,932	1,576	5,356	6,865	1,510	14
15	Interdept.	5,000	7.6692	38,346	394	37,952	29,815	(8,137)	15
16		<u>1,483,500</u>		<u>\$ 9,232,693</u>	<u>500,000</u>	<u>\$ 8,732,693</u>	<u>\$ 8,872,000</u>	<u>\$ 139,307</u>	16

		Production Allocation	% of Total	Total Actual Demand Allocated Costs	Total Capacity Purchases per Kwh	Total Energy Purchase Costs	Total Reliability Adjustment Costs	
	Rate Code							
	(i)	(j)	(k)	(l)	(m)	(n)	(o)	
17	511	\$ 422,891,887	34.91%	\$ 178,390	22.245%	\$ 1,859,879	\$ 2,038,269	17
18	521	30,582,843	2.52%	12,877	2.494%	208,532	221,409	18
19	523	164,025,617	13.54%	69,189	12.133%	1,014,479	1,083,669	19
20	526	11,600,134	0.96%	4,906	1.483%	123,992	128,898	20
21	527	8,753,270	0.72%	3,679	1.685%	140,900	144,579	21
22	533	238,348,307	19.67%	100,514	20.222%	1,690,799	1,791,312	22
23	534	271,111,737	22.37%	114,311	26.963%	2,254,398	2,368,709	23
24	536	56,614,273	4.67%	23,864	11.594%	969,391	993,255	24
25	541	1,253,830	0.10%	511	0.169%	14,090	14,601	25
26	544	623,071	0.05%	256	0.135%	11,272	11,527	26
27	545	433,565	0.04%	204	0.135%	11,272	11,476	27
28	550	905,717	0.07%	358	0.270%	22,544	22,902	28
29	555	489,448	0.04%	204	0.054%	4,509	4,713	29
30	560	264,034	0.02%	102	0.081%	6,763	6,865	30
31	Interdept.	3,908,418	0.32%	1,635	0.337%	28,180	29,815	31
32	Total	\$ 1,211,806,151	100.00%	\$ 511,000	100.00%	\$ 8,361,000	\$ 8,872,000	32

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Reliability Adjustment Reconciliation
Summary of Costs in the Reliability Adjustment
Month

Line No.		Amount	Line No.
1	Capacity Purchases	\$ 510,000	1
2	MISO Transmission Costs - demand allocated	<u>1,000</u>	2
3	Total Demand Allocated Costs	<u>\$ 511,000</u>	3
4	Purchases through MISO	\$ 1,950,000	4
5	Purchased Power other than MISO	6,085,000	5
6	MISO Non-FAC Charges	405,000	6
7	MISO Transmission Costs - energy allocated	68,000	7
8	LESS ; Off System Sales Net Revenue	<u>147,000</u>	8
9	Total Energy Allocated Costs	<u>\$ 8,361,000</u>	9
10	Total Reliability Adjustment Costs	<u>\$ 8,872,000</u>	10

NORTHERN INDIANA PUBLIC SERVICE COMPANY
MISO Charges Included in Reliability Adjustment by Charge Type
Month

Line No.	Charge Type		Line No.
1	Day Ahead Market Administration Amount	\$ 250,000	1
2	Day Ahead Financial Bilateral Transaction Congestion Amount	-	2
3	Day Ahead Financial Bilateral Transaction Loss Amount	-	3
4	Day Ahead Non-Asset Energy Amount	(600,000)	4
5	Day Ahead Revenue Sufficiency Guarantee Distribution Amount	100,000	5
6	Day Ahead Virtual Energy Amount	-	6
7	Day Ahead Schedule 24 Allocation	50,000	7
8	Day Ahead Subtotal	\$ (200,000)	8
9	Financial Transmission Rights Market Administration Amount	23,000	9
10	Financial Transmission Rights Subtotal	\$ 23,000	10
11	Real-Time Market Administration Fee Amount	\$ 25,000	11
12	Real Time Financial Bilateral Transaction Congestion Amount	-	12
13	Real Time Financial Bilateral Transaction Loss Amount	-	13
14	Real Time Congestion Rebate on Carve-Out Grandfathered Agrmnts	-	14
15	Real Time Loss Rebate on Carve-Out Grandfathered Agrmnts	-	15
16	Real Time Miscellaneous Amount	30,000	16
17	Real Time Non-Asset Energy Amount	(500,000)	17
18	Real Time Net Inadvertent Distribution Amount	(1,000)	18
19	Real Time Price Volatility Make Whole	(25,000)	19
20	Real Time Revenue Neutrality Uplift Amount	1,000,000	20
21	Real Time Revenue Sufficiency Guarantee First Pass Distribution Amount	200,000	21
22	Real Time Virtual Energy Amount	-	22
23	Real Time Revenue Sufficiency Guarantee First Pass/Second Pass Distribution Amount Carve Out	-	23
24	Real Time Non-Asset Energy Fin Sched Carve Out	-	24
25	Market Administration Virtual and Fin-Phys Carve Out	-	25
26	Real Time Schedule 24 Allocation	3,000	26
27	Real Time Schedule 24 Distribution	(150,000)	27
28	Real Time Revenue Neutrality Uplift Amount - Second Pass RSG Carve Out	-	28
29	Real Time Subtotal	\$ 582,000	29
30	MISO Day 2 Charges Recovered in Reliability Adjustment	\$ 405,000	30
31	Schedule 10 - ISO Cost Recovery Adder	\$ 200,000	31
32	Schedule 10 - FERC	50,000	32
33	Schedule 11 - Transmission Adjustment	3,000	33
34	Transmission Charges Subtotal	\$ 253,000	34
35	Schedule 1 - Scheduling, System Control and Dispatch Service	\$ (25,000)	35
36	Schedule 2 - Reactive Supply And Voltage Control/Generation Sources Service	(40,000)	36
37	Schedule 7 - Long-Term/Short-Term Firm Point-to-Point Transmission	(80,000)	37
38	Schedule 8 - Non-Firm Point-to-Point Transmission Service	(40,000)	38
39	Schedule 11 - Transmission Adjustment	-	39
40	Transmission Revenues Subtotal	\$ (185,000)	40
41	MISO Transmission Charges Recovered in Reliability Adjustment	\$ 68,000	41
42	MISO Charges Recovered in Reliability Adjustment - Energy Allocated	\$ 473,000	42
43	Schedule 26 - Network Upgrade Charge from Transmission Expansion	1,000	43
44	MISO Charges Recovered in Reliability Adjustment - Demand Allocated	\$ 1,000	44

XI. FAIR VALUE RATE BASE

Q57. Have you also considered what would represent the fair value of the Company's property?

A57. Yes. I have derived a fair value rate base for the Company that gives weight to both the replacement cost new less depreciation ("Replacement Cost") and the original cost less depreciation ("Original Cost") of the Company's utility property. In particular, I have derived a weighted fair value rate base by giving 49.94% weight to Replacement Cost and 50.05% weight to Original Cost. These relative weights were determined from the capital structure ratios calculated by NIPSCO Witness Linda E. Miller, as shown on page 1 of Petitioner's Exhibit LEM-5. The 49.94% weight assigned to the Replacement Cost value represents the Company's common equity ratio. The weight assigned to the Original Cost represents the remaining components of the Company's ratesetting capital structure. This method represents a compromise approach that is intended to make sure that, at a minimum the Company gets the benefit of the appreciation in value of its assets to the extent they were financed by the common equity investor.

Q58. What amount did you use for the Replacement Cost of the property?

A58. My starting point was the replacement cost less depreciation valuation of the Company's utility plant in service as of December 31, 2007 performed by NIPSCO Witness John P. Kelly adjusted for economic depreciation, which is shown on Petitioner's Exhibit JPK-3 to be \$6,329,750,643. To this amount, I added \$322,446,401 for Sugar Creek and the deferred charges, proposed pension asset, materials and supplies and production fuel

1 shown on Petitioner's Exhibit LEM-4, page 1 of 2, sponsored by Ms. Miller which total
2 \$154,082,622. This resulted in a total Replacement Cost rate base of \$6,806,421,829.

3 **Q59. What amount did you use for the Original Cost of the Company's property?**

4 A59. I used the amount of \$2,665,421,829, which is the Original Cost rate base supported by
5 Ms. Miller as shown on Petitioner's Exhibit LEM-4, page 1.

6 **Q60. What weighted fair value rate base did you derive from this data?**

7 A60. Using the methodology described above, I developed a fair value rate base of
8 \$4,733,099,690 as follows:

9

Valuation Method	Amount	Weight	Weighted Amount
Replacement Cost	\$ 6,806,279,666	49.94%	\$ 3,399,056,065
Original Cost	\$ 2,665,421,829	50.05%	\$ 1,334,043,625
Fair Value		99.99%	\$ 4,733,099,690

10 **Q61. Does this conclude your prepared direct testimony?**

11 A61. Yes.

Northern Indiana Public Service Company
Rate of Return Applicable to an Original Cost Rate Base
For the Test Year Ending December 31, 2007, As Adjusted

<u>Investor Provided Capital</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	39.40%	6.56%	2.58%
Common Equity	<u>60.60%</u>	12.00%	<u>7.27%</u>
Total	<u>100.00%</u>		<u>9.86%</u>

Indicated levels of fixed charge coverage assuming that the Company could actually achieve its overall cost of capital:

Pre-tax coverage of interest expense based upon a
40.525% composite federal and state income tax rate
(14.81% ÷ 2.58%) 5.73 x

Post-tax coverage of interest expense
(9.86% ÷ 2.58%) 3.81 x

<u>For Ratesetting Purposes</u>	<u>Ratios</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	32.47%	6.56%	2.13%
Common Equity	49.94%	12.00%	5.99%
Customer Deposits	2.28%	6.00%	0.14%
Cost-free Capital	14.21%	0.00%	0.00%
JDITC	<u>1.09%</u>	9.86%	<u>0.11%</u>
Total	<u>100.00%</u>		<u>8.37%</u>

1 rates and transaction costs for the remarketed bonds would result in a weighted cost of
2 debt that is not significantly different from the estimate shown in Petitioner's Exhibit
3 LEM-5, page 3 of 3.

4 **Q22. How do the actual debt costs associated with the August 25, 2008 remarketing**
5 **compare to the estimates in Petitioner's Exhibit LEM-5, page 3 of 3?**

6 A22. The actual interest rates were slightly lower than the projections and the placement
7 agent's fees were higher resulting in an effective debt cost rate that is not significantly
8 different. The difference in the interest rates are shown below:

9

<u>Issue</u>	<u>Actual Interest Rate</u>	<u>Projected Interest Rate</u>
Series 1988A	5.60%	5.75%
Series 1988B	5.60%	5.75%
Series 1988C	5.60%	5.75%
Series 1994A	4.15%	4.75%
Series 1994B	5.20%	5.25%
Series 1994C	5.85%	6.00%
Series 2003C	5.70%	5.875%
Weighted Average	5.58%	5.80%

10
11 Although the actual interest rates shown above are less than the projections, the actual
12 placement agent's fees were \$1,016,000 which is \$366,000 greater than the projection.
13 The net effect is an "all-in" effective debt cost rate that is not significantly different.
14 Petitioner's Exhibit VVR-2, page 1 of 1, shows the calculation of the weighted cost of

1 replaced with a fixed-rate offering, which, depending upon market circumstances at the
2 time, may bear a fixed rate of interest considerably higher than today's fixed rates.

3 **Q24. Please describe the proposed debt financing related to the acquisition of the Sugar**
4 **Creek Facility.**

5 A24. As discussed by NIPSCO Witness Bradley K. Sweet, the acquisition of the Sugar Creek
6 Facility was closed on May 30, 2008 at a purchase price of \$329,672,739. NIPSCO
7 proposes to finance \$120 million of the purchase price with long-term debt in the form of
8 notes issued to NFC. The actual interest rate will depend on market conditions at the
9 time the debt is issued. NIPSCO currently projects an interest rate of 6.50% for this new
10 debt.

11 **V. CONCLUSION**

12 **Q25. Does this conclude your prepared direct testimony?**

13 A25. Yes, it does.

1 A33. NIPSCO's plan is to replace the 2,351 KWh only meters with manual-read Interval
2 Demand Recorders ("IDRs") in 2009. If NIPSCO is unable to complete this installation,
3 NIPSCO will not assess any demand charges on any customer that does not have a
4 demand meter.

5 **Q34. Please identify the installed meter cost associated with replacing the KWh only**
6 **meters with manual-read IDRs for Proposed Rate 523.**

7 A34. The installed meter cost budgeted for 2009 is approximately \$1.4 million.

8
9 **Q35. Are there any additional costs associated with deployment of IDRs?**

10 A35. Yes. Incremental costs will be incurred for the hand-held devices and labor required to
11 physically read the meters and to make the required upgrades to the software application
12 used at NIPSCO to capture data from IDR type meters and to NIPSCO's Customer
13 Information System so that IDR meter information can be billed. These costs have not
14 been included in NIPSCO's budget for 2009 or beyond.

15 **Q36. Is NIPSCO seeking recovery of the costs of the IDR in this rate case?**

16 A36. No. NIPSCO intends to seek recovery in its Demand Side Management Alternative
17 Regulatory Plan, which is more fully described by Mr. Shambo.

18 **Q37. Please explain the benefits of switching from KWh only meters to IDRs.**

19 A37. The benefits include improved load research and forecasting capabilities, the collection of
20 demand information, as well as enhanced customer service.

21 **Q38. Please explain the improvement in load research and forecasting.**